

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Hamtramck, Michigan</u>	County Wayne
Audit Date June 30, 2004	Opinion Date December 17, 2004	Date Accountant Report Submitted To State: December 30, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **City of Hamtramck, Michigan**

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## **Financial Report with Additional Information June 30, 2004**

# City of Hamtramck, Michigan

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## Independent Auditor's Report

To the Emergency Financial Manager,  
Honorable Mayor, and City Council  
City of Hamtramck, Michigan

We have audited the accompanying general purpose financial statements of the City of Hamtramck, Michigan as of June 30, 2004 and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Hamtramck, Michigan's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The City has not retained water and sewer billing registers for all months of the year. We were not able to obtain sufficient evidence to corroborate audit information regarding the Enterprise Fund, charges for services, and customer receivables. As a result, we were not able to determine the ending balances for accounts receivable and related charges for services.

As discussed in Note 4, the capital assets recorded in the Water and Sewer Enterprise Fund do not include any assets acquired before June 30, 1986. Had such assets been recorded, the capital assets and fund equity would have been increased from the amounts reported in these general purpose financial statements, and depreciation expense would have been increased. As discussed in Note 7, the expenditure categories have been aggregated on a different basis than that used in adopting the budget; this affects the ability to compare actual expenditures to budgeted amounts. In addition, as discussed in Note 9, the City has a net pension obligation resulting from pension contributions in the 1980s and 1990s that were less than the actuarially required amounts. This liability has not been valued and recorded in the General Long-term Debt Account Group. The amount of this error is not determinable.

A member of



A worldwide association of independent accounting firms

To the Emergency Financial Manager,  
Honorable Mayor, and City Council  
City of Hamtramck, Michigan

The accompanying general purpose financial statements do not present government-wide financial statements to display the financial position and changes in financial position of its governmental activities, business-type activities, and discretely presented component units. In addition, the combining component unit information presents only modified accrual information. Furthermore, the City has not followed the formatting of separately reporting its governmental funds (including major funds), proprietary funds (including major Enterprise Funds), and fiduciary funds. The City has continued to report information by fund type and account group; the General Fixed Assets Account Group excludes general infrastructure assets and accumulated depreciation. The City has reported its statement of cash flows on the indirect method, rather than directly reporting cash inflows and outflows from operating activities. Finally, the long-term debt footnote disclosure does not present the amount due within the next fiscal year; the future debt service requirement does not distinguish between principal and interest, nor does it present principal and interest in five-year increments. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements and full accrual information for the combining component unit statements. Further, accounting principles require separate fund-based reporting of its governmental funds (including major funds), proprietary funds (including major Enterprise Funds), and fiduciary funds. In addition, accounting principles require the general fixed asset data to include general infrastructure assets, and the accumulation of depreciation of government-wide financial statements for the City's governmental activities, business-type activities, and discretely presented component units (including the full accrual combining component unit data); the amounts of general infrastructure assets and general fixed assets accumulated depreciation are not reasonably determinable. Accounting principles require the cash flow statement to directly report cash inflows and outflows from operating activities.

In our opinion, the general purpose financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Hamtramck, Michigan as of June 30, 2004 or the changes in its financial position of its cash flows, where applicable, for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Emergency Financial Manager,  
Honorable Mayor, and City Council  
City of Hamtramck, Michigan

The accompanying general purpose financial statements also do not include a management's discussion and analysis (which would present an analysis of the financial performance for the year) or budgetary comparison schedules with original appropriations for the General Fund and each major Special Revenue Fund. The Governmental Accounting Standards Board has determined that these are necessary to supplement, although not required to be a part of, the financial statements.

*Plante & Moran, PLLC*

December 17, 2004

# City of Hamtramck, Michigan

	Governmental Fund Types			Proprietary Fund Type
	General Fund	Special Revenue Funds	Debt Service Funds	Enterprise
<b>Assets</b>				
Cash and investments (Note 2)	\$ 189,942	\$ 2,048,899	\$ 174,861	\$ 251,678
Receivables:				
Taxes	710,243	36,210	283,823	516,626
Customer	-	-	-	1,670,789
Other	261,879	104,757	-	-
Due from other governmental units	2,438,556	215,024	-	-
Due from other funds (Note 3)	215,920	503,845	117,906	737,074
Due from component unit	2,500	-	-	173,143
Prepaid expenditures and deposits	21,750	-	-	-
Capital assets (Note 4)	-	-	-	2,804,747
Amount available in Debt Service Funds	-	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-
<b>Total assets</b>	<b>\$ 3,840,790</b>	<b>\$ 2,908,735</b>	<b>\$ 576,590</b>	<b>\$ 6,154,057</b>
<b>Liabilities and Fund Equity (Deficit)</b>				
<b>Liabilities</b>				
Accounts payable	\$ 966,324	\$ 44,890	\$ -	\$ 575,933
Due to other governmental units	-	-	-	-
Due to other funds	991,750	528,066	-	20,237
Due to primary government	-	-	-	-
Accrued and other liabilities	410,062	7,240	-	6,535
Deferred revenue	1,310,731	117,970	-	-
Long-term debt (Note 5)	-	-	-	1,498,135
<b>Total liabilities</b>	<b>3,678,867</b>	<b>698,166</b>	<b>-</b>	<b>2,100,840</b>
<b>Fund Equity (Deficit)</b>				
Investment in general fixed assets	-	-	-	-
Retained earnings	-	-	-	4,053,217
Fund balances (deficit):				
Reserved for development agreement (Note 10)	-	-	-	-
Reserved for prepaid expenditures and deposits	21,750	-	-	-
Unreserved	140,173	2,210,569	576,590	-
<b>Total fund equity (deficit)</b>	<b>161,923</b>	<b>2,210,569</b>	<b>576,590</b>	<b>4,053,217</b>
<b>Total liabilities and fund equity (deficit)</b>	<b>\$ 3,840,790</b>	<b>\$ 2,908,735</b>	<b>\$ 576,590</b>	<b>\$ 6,154,057</b>



**Combined Balance Sheet - All Fund Types,  
Account Groups, and Component Units  
June 30, 2004**

Fiduciary Fund Type	Account Groups		Total Primary Government (Memorandum Only)	Component Units
Trust and Agency	General Fixed Assets	General Long-term Debt		
\$ 4,767,731	\$ -	\$ -	\$ 7,433,111	\$ 62,729
-	-	-	1,546,902	-
-	-	-	1,670,789	-
540,753	-	-	907,389	272,342
-	-	-	2,653,580	-
119,706	-	-	1,694,451	-
-	-	-	175,643	-
-	-	-	21,750	-
-	11,773,570	-	14,578,317	-
-	-	576,590	576,590	-
-	-	15,369,548	15,369,548	-
<b>\$ 5,428,190</b>	<b>\$ 11,773,570</b>	<b>\$ 15,946,138</b>	<b>\$ 46,628,070</b>	<b>\$ 335,071</b>
\$ 784,594	\$ -	\$ -	\$ 2,371,741	\$ 259,810
455,374	-	-	455,374	37,261
154,398	-	-	1,694,451	-
-	-	-	-	175,643
71,076	-	-	494,913	18,039
53,212	-	-	1,481,913	272,342
-	-	15,946,138	17,444,273	-
1,518,654	-	15,946,138	23,942,665	763,095
-	11,773,570	-	11,773,570	-
-	-	-	4,053,217	-
3,909,536	-	-	3,909,536	-
-	-	-	21,750	-
-	-	-	2,927,332	(428,024)
3,909,536	11,773,570	-	22,685,405	(428,024)
<b>\$ 5,428,190</b>	<b>\$ 11,773,570</b>	<b>\$ 15,946,138</b>	<b>\$ 46,628,070</b>	<b>\$ 335,071</b>

# City of Hamtramck, Michigan

	Governmental Fund Types		
	General Fund	Special Revenue Funds	Debt Service Fund
<b>Revenue</b>			
Property taxes	\$ 6,412,414	\$ 366,501	\$ 2,874,413
Income taxes	2,661,521	-	-
Licenses and permits	300,045	-	-
Federal sources	-	499,043	-
State sources	4,424,744	1,453,981	-
Charges for services	1,104,639	273	-
Parking meters and permits	670	-	-
Fines and forfeitures	997,075	44,483	-
Interest	19,450	13,985	1,461
Other	513,973	68,234	-
Total revenue	16,434,531	2,446,500	2,875,874
<b>Expenditures</b>			
General government	3,066,351	1,539,019	-
Public safety	9,152,767	198,254	-
Public works	1,834,963	1,053,060	-
Health and welfare	139,304	172,834	-
Recreation and cultural	-	254,213	-
Economic development	-	63,498	-
Interest	-	-	-
Employee benefits, insurance, and other	2,489,344	-	-
Debt payments	-	-	183,144
Debt service	339,648	-	2,585,213
Total expenditures	17,022,377	3,280,878	2,768,357
<b>Excess of Revenue Over (Under) Expenditures</b>	(587,846)	(834,378)	107,517
<b>Other Financing Sources (Uses)</b>			
Proceeds from the issuance of long-term debt	2,865,000	2,745	-
Payment on refunding bonds	(2,823,500)	-	-
Operating transfers in	-	1,126,347	183,145
Operating transfers out	(326,560)	(1,035,686)	-
Total other financing sources (uses)	(285,060)	93,406	183,145
<b>Changes in Fund Balances</b>	(872,906)	(740,972)	290,662
<b>Fund Balances (Deficit) - Beginning of year</b>	1,034,829	2,951,541	285,928
<b>Fund Balances (Deficit) - End of year</b>	<b>\$ 161,923</b>	<b>\$ 2,210,569</b>	<b>\$ 576,590</b>

**Combined Statement of Revenue, Expenditures, and  
Changes in Fund Balances (Deficit) - All Governmental Fund Types,  
Expendable Trust Fund, and Component Units  
Year Ended June 30, 2004**

Fiduciary Fund Type			
Expendable			
Trust -	Total Primary		
Development	Government		
Agreement	(Memorandum	Component	
Escrow	Only)	Units	
\$ 192,954	\$ 9,846,282	\$ -	
23,342	2,684,863	-	
-	300,045	-	
81,139	580,182	1,227,133	
-	5,878,725	-	
-	1,104,912	-	
-	670	157,853	
-	1,041,558	2,534	
24,009	58,905	-	
-	582,207	84,000	
321,444	22,078,349	1,471,520	
-	4,605,370	-	
-	9,351,021	-	
-	2,888,023	-	
-	312,138	-	
-	254,213	2,549,253	
-	63,498	-	
-	-	-	
1,563,353	4,052,697	-	
-	183,144	(757,930)	
-	2,924,861	-	
1,563,353	24,634,965	1,791,323	
(1,241,909)	(2,556,616)	(319,803)	
808,419	3,676,164	-	
-	(2,823,500)	-	
52,754	1,362,246	-	
-	(1,362,246)	-	
861,173	852,664	-	
(380,736)	(1,703,952)	(319,803)	
4,290,272	8,562,570	(108,221)	
<b>\$ 3,909,536</b>	<b>\$ 6,858,618</b>	<b>\$ (428,024)</b>	

# City of Hamtramck, Michigan

General Fund (Note 7)			
	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>			
Property taxes	\$ 6,449,525	\$ 6,412,414	\$ (37,111)
Income taxes	2,628,485	2,661,521	33,036
Licenses and permits	265,740	300,045	34,305
Federal sources	14,674	-	(14,674)
State sources	4,333,372	4,424,744	91,372
Charges for services	1,331,588	1,104,639	(226,949)
Parking meters and permits	-	670	670
Fines and forfeitures	1,015,000	997,075	(17,925)
Interest	17,421	19,450	2,029
Other	371,280	513,973	142,693
Operating transfers from other funds	-	-	-
Proceeds from issuance of long-term debt	-	2,865,000	2,865,000
Total revenue	16,427,085	19,299,531	2,872,446
<b>Expenditures</b>			
General government	3,224,141	3,066,351	157,790
Public safety	9,535,755	9,152,767	382,988
Public works	1,814,165	1,834,963	(20,798)
Health and welfare	118,551	139,304	(20,753)
Recreation and cultural	-	-	-
Payment on refunding bonds	-	2,823,500	(2,823,500)
Employee benefits, insurance, and other	2,244,099	2,489,344	(245,245)
Debt service	522,793	339,648	183,145
Operating transfers to other funds	-	326,560	(326,560)
Total expenditures	17,459,504	20,172,437	(2,712,933)
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>\$ (1,032,419)</b>	<b>\$ (872,906)</b>	<b>\$ 159,513</b>

**Combined Statement of Revenue and  
Expenditures - Budget and Actual  
General and Special Revenue Fund Types  
Year Ended June 30, 2004**

Special Revenue Funds (Note 7)		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 390,000	\$ 366,501	\$ (23,499)
-	-	-
-	-	-
617,315	499,043	(118,272)
1,282,000	1,453,981	171,981
55,750	273	(55,477)
-	-	-
122,000	-	(122,000)
2,700	13,268	10,568
2,750	68,234	65,484
300,000	422,239	122,239
-	(2,745)	(2,745)
2,772,515	2,820,794	48,279
-	-	-
109,000	198,254	(89,254)
1,242,086	1,053,060	189,026
670,552	172,834	497,718
320,612	254,213	66,399
-	-	-
-	-	-
-	-	-
1,075,681	1,035,686	39,995
3,417,931	2,714,047	703,884
<b>\$ (645,416)</b>	<b>\$ 106,747</b>	<b>\$ 752,163</b>

# City of Hamtramck, Michigan

## Statement of Revenue, Expenses, and Changes in Retained Earnings Proprietary Fund Type - Enterprise Fund - Water and Sewer Year Ended June 30, 2004

<b>Operating Revenue - Charges for services</b>	<b>\$ 4,026,649</b>
<b>Operating Expenses</b>	
Cost of water	688,569
Cost of sewage disposal	2,196,145
System operation and maintenance:	
Personnel costs	390,441
Infrastructure repair and maintenance	397,612
Other	28,373
Depreciation	<u>160,880</u>
Total operating expenses	<u>3,862,020</u>
<b>Operating Income</b>	<b>164,629</b>
<b>Nonoperating Revenue (Expense)</b>	
Interest income	2,322
Interest expense	<u>(58,752)</u>
Total nonoperating expense	<u>(56,430)</u>
<b>Income - Before capital contributions</b>	<b>108,199</b>
<b>Capital Contributions</b>	<u><b>709,134</b></u>
<b>Change in Retained Earnings</b>	<b>817,333</b>
<b>Retained Earnings</b>	
Beginning of year	<u>3,235,884</u>
End of year	<u><b>\$ 4,053,217</b></u>

# City of Hamtramck, Michigan

## Statement of Cash Flows Proprietary Fund Type - Enterprise Fund - Water and Sewer Year Ended June 30, 2004

### Cash Flows from Operating Activities

Operating income	\$ 164,629
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	160,880
Changes in assets and liabilities:	
Receivables	550,763
Due from other funds	(303,749)
Accounts payable	(341,083)
Due to other funds	(28,192)
Accrued and other liabilities	<u>6,535</u>
Net cash provided by operating activities	209,783

### Cash Flows from Capital and Related Financing Activities

Purchase of capital assets	(182,656)
Payments on meter financing debt service	<u>(859,852)</u>
Net cash used in capital and related financing activities	(1,042,508)

**Cash Flows from Investing Activities** - Interest received on investments 2,322

**Net Decrease in Cash and Cash Equivalents** (830,403)

**Cash and Cash Equivalents** - Beginning of year 1,082,081

**Cash and Cash Equivalents** - End of year \$ 251,678

**Noncash Activities** - The Downtown Development Authority constructed \$709,134 of water and sewer lines and donated them to the Water and Sewer Fund during the year.

# City of Hamtramck, Michigan

## Combining Balance Sheet Component Units June 30, 2004

	Downtown Development Authority	31st District Court	Total
<b>Assets</b>			
Cash and investments	\$ -	\$ 62,729	\$ 62,729
Receivables:			
Other	272,342	-	272,342
Due from other funds	-	-	-
Due from other governmental units	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u><b>\$ 272,342</b></u>	<u><b>\$ 62,729</b></u>	<u><b>\$ 335,071</b></u>
<b>Liabilities and Fund Balances (Deficit)</b>			
<b>Liabilities</b>			
Accounts payable	\$ 259,810	\$ -	\$ 259,810
Accrued and other liabilities	-	18,039	18,039
Due to other governmental units	-	37,261	37,261
Due to other funds	-	-	-
Due to primary government	174,171	1,472	175,643
Deferred revenue	272,342	-	272,342
	<u>706,323</u>	<u>56,772</u>	<u>763,095</u>
Total liabilities	706,323	56,772	763,095
<b>Fund Balances (Deficit) - Unreserved -</b>			
Undesignated	<u>(433,981)</u>	<u>5,957</u>	<u>(428,024)</u>
Total liabilities and fund balances (deficit)	<u><b>\$ 272,342</b></u>	<u><b>\$ 62,729</b></u>	<u><b>\$ 335,071</b></u>



# City of Hamtramck, Michigan

## Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) - Component Units Year Ended June 30, 2004

	Downtown Development Authority	31st District Court	Total
<b>Revenue</b>			
Federal sources	\$ 1,227,133	\$ -	\$ 1,227,133
Fines and fees collected	-	2,534	2,534
Parking meters	157,853	-	157,853
Proceeds from long-term debt issuance	757,930	-	757,930
Other	84,000	-	84,000
Total revenue	2,226,916	2,534	2,229,450
<b>Expenditures</b> - Community and economic development	2,549,253	-	2,549,253
<b>Excess of Revenue Over (Under) Expenditures</b>	(322,337)	2,534	(319,803)
<b>Fund Balances (Deficit) - July 1, 2003</b>	(111,644)	3,423	(108,221)
<b>Fund Balances (Deficit) - June 30, 2004</b>	<u>\$ (433,981)</u>	<u>\$ 5,957</u>	<u>\$ (428,024)</u>

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Hamtramck, Michigan (the "City") do not conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The City has not modified its financial reporting to adopt Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. As such, the general purpose financial statements exclude the management's discussion and analysis, government-wide statement of net assets, and government-wide statement of activities. Furthermore, the City has not followed the formatting of separately reporting its governmental funds (including major funds), proprietary funds (including major Enterprise Funds) and fiduciary funds. The City has continued to report information by fund type and account group; the General Fixed Assets Account Group excludes general infrastructure assets and accumulated depreciation on general fixed assets.

The following is a summary of the significant accounting policies:

#### **Reporting Entity**

As required by accounting principles generally accepted in the United States of America, these general purpose financial statements present the City of Hamtramck, Michigan and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The following component units are reported within the component units column in the combined general purpose financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

- a. The Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the mayor and approved by the City Council. In addition, the Authority's budget is subject to approval by the City Council.
- b. The District Court records the collection of amounts that are subsequently returned to or paid to third parties. The fund also maintains certain fees collected on behalf of the City's General Fund to pay jury fees and certain operating expenditures. The District Court is also collecting a fee to provide funds for the renovation and/or construction of a new court building. The District Court is governed by separately elected judges. However, it is included here because it is fiscally dependent on the City.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Fund Accounting**

The accounts of the City are organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The various funds are grouped, in the combined general purpose financial statements in this report, into generic fund types in three broad fund categories as follows:

#### **Governmental Funds**

**General Fund** - The General Fund contains the records of the ordinary activities of the City that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

**Debt Service Funds** - The Debt Service Funds are used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt other than debt payable from the operations of an Enterprise Fund.

#### **Proprietary Fund**

**Enterprise Fund** - The Enterprise Fund is used to account for the results of operations that provide a service to citizens that is financed primarily by a user charge for the provision of that service.

#### **Fiduciary Funds**

**Expendable Trust Fund** - The Expendable Trust Fund is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable Trust Funds account for assets where both the principal and interest may be spent.

**Trust and Agency Funds** - Trust and Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. Agency Funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Basis of Accounting**

The accrual basis of accounting is used by the proprietary fund. All governmental funds, Expendable Trust Funds, Agency Funds, and component units utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- (a) Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31, and the related property taxes become a lien at that time. These taxes are billed on July 1 of the following year, and are due on August 31, with the final collection date of February 28 before they are added to the county tax rolls.

- (b) Noncurrent receivables are recorded at full value, and deferred revenue is recorded for the portion not available for use to finance operations as of year end.
- (c) Interest on bonded indebtedness and other long-term debt is not recorded as an expenditure until its due date.
- (d) Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- (e) Normally, expenditures are not divided between years by the recording of prepaid expenses. The prepaid expenditures reported on the balance sheet represent advance payments for next years' services.
- (f) The noncurrent portion of accumulated sick and vacation pay liabilities is reflected in the General Long-term Debt Account Group.

**Fixed Assets and Long-term Liabilities** - Fixed assets used in governmental fund-type operations are accounted for in the General Fixed Assets Account Group, rather than in the governmental funds. Such assets, which are recorded as expenditures at the time of purchase, do not include certain improvements such as roads, bridges, curbs and gutters, streets and sidewalks, and lighting systems. No depreciation has been provided on general fixed assets.

All fixed assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

The General Fixed Assets Account Group and the General Long-term Debt Account Group are not funds and do not involve the measurement of results of operations.

Fixed assets and long-term liabilities relating to the proprietary fund are accounted for in that fund. Depreciation on such fixed assets is charged as an expense against the operations of the proprietary fund on a straight-line basis.

**Cash and Cash Equivalents** - Cash and cash equivalents include amounts in demand deposits as well as short-term investments with original maturities of three months or less from the date of acquisition.

**Investments** - Investments are reported at fair value, based on quoted market prices.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Memorandum-only Totals** - The total data presented is the aggregate of the fund types and account groups and is presented for analysis purposes only. No consolidating or other eliminations were made in arriving at the totals; therefore, they do not present consolidated information.

Other accounting policies are disclosed in other notes to the financial statements.

# City of Hamtramck, Michigan

## Notes to Financial Statements June 30, 2004

### Note 2 - Deposits and Investments

The cash and investments of the City at June 30, 2004 are classified by Governmental Accounting Standards Board Statement Number 3 in the following classifications:

Deposits in financial institutions (checking accounts, savings accounts, and certificates of deposit)	\$ 4,523,840
Investments	2,907,524
Petty cash and cash on hand	<u>1,747</u>
Total	<u>\$ 7,433,111</u>

#### Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$7,241,000. Of that amount, up to \$300,000 was covered by federal depository insurance, and the remainder would be uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Investments

The City is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances, obligations issued by or guaranteed by the United States or any agency or instrumentality thereof, and mutual funds and investment pools that are composed of authorized investment vehicles.

The City's investments are categorized to give an indication of the level of risk assumed by the City at June 30, 2004. Risk Category I includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the City or its agent

### Note 2 - Deposits and Investments (Continued)

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the City's name

	Carrying Amount (Market Value)
Category 2 investments - U.S. governmental securities	\$ 2,549,072
Uncategorized investments - U.S. government pooled investment fund and other bank investment pools*	<u>358,452</u>
Total	<u>\$ 2,907,524</u>

\* These investments are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes these investments comply with the investment authority noted above.

#### Component Units

The cash and investments of the City's component units of \$62,729 are classified by Governmental Accounting Standards Board Statement No. 3 as deposits in financial institutions (checking accounts and savings accounts).

The component unit bank deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$202,836, of which \$100,000 was covered by federal depository insurance.

# City of Hamtramck, Michigan

## Notes to Financial Statements June 30, 2004

### Note 3 - Interfund Receivables

The following are the interfund receivables at June 30, 2004:

Fund Due To	Fund Due From	Amount
General Fund	911 Emergency Fund	\$ 309
	Library Fund	59,734
	Community Development Block Grants Fund	34,070
	Tax Collection Fund	60,986
	T/A Public Act #495	14,779
	Misc. State Grants	648
	Property Revitalization	45,394
Total General Fund		215,920
Special Revenue Funds:		
Major Street	General Fund	24,934
Major Street	Water and Sewer Fund	16,244
Local Street	Major Street Fund	254,125
Local Street	General Fund	7,058
Drug Law Enforcement	General Fund	58,287
Drug Law Enforcement	Misc. State Grants Fund	2,144
Library	Community Development Block Grants Fund	26,190
Library	Tax Collection Fund	8,315
CDBG	General Fund	77,001
CDBG	Misc. State Grants Fund	148
U.S. Justice Department Grants	General Fund	6,003
Building and Improvement	General Fund	23,396
Total Special Revenue Funds		503,845
Debt Service Funds:		
Court Judgment #2	General Fund	57,691
Court Judgment #2	Tax Collection Fund	3,205
Pension Judgment	Tax Collection Fund	57,010
Total Debt Service Funds		117,906
Water and Sewer Enterprise Fund	General Fund	737,074
Fiduciary Funds:		
Development Agreement Escrow	911 Emergency	147
Development Agreement Escrow	General Fund	1,806
Development Agreement Escrow	Tax Collection Fund	2,420
Development Agreement Escrow	CDBG	105,157
T/A Public Act #495	Development Agreement Escrow	6,183
Tax Collection Fund	Water and Sewer Enterprise Fund	3,993
Total Fiduciary Funds		119,706
Total interfund receivables		\$ 1,694,451



# City of Hamtramck, Michigan

## Notes to Financial Statements June 30, 2004

### Note 4 - Capital Assets

A summary of changes in general fixed assets follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Land	\$ 808,656	\$ -	\$ -	\$ 808,656
Buildings and improvements	4,746,793	3,091,347	10,000	7,828,140
Equipment	3,024,076	252,698	140,000	3,136,774
Total	<u>\$ 8,579,525</u>	<u>\$3,344,045</u>	<u>\$ 150,000</u>	<u>\$ 11,773,570</u>

The Water and Sewer Fund has only recorded assets acquired after June 30, 1986. A summary of Water and Sewer Fund fixed assets at June 30, 2004 is as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Land, building, and improvements	\$ 2,080,526	\$ -	\$ -	\$ 2,080,526
Machinery and equipment	690,700	891,610	-	1,582,310
Total	2,771,226	891,610	-	3,662,836
Accumulated depreciation	<u>(697,389)</u>	<u>(160,700)</u>	<u>-</u>	<u>(858,089)</u>
Net	<u>\$ 2,073,837</u>	<u>\$ 730,910</u>	<u>\$ -</u>	<u>\$ 2,804,747</u>

### Note 5 - Long-term Debt

#### Outstanding Debt

The following is a summary of the debt outstanding of the City at June 30, 2004:

	July 1, 2003	Additions (Reductions)	June 30, 2004
<b>General Obligation Bonds</b>			
1992 Series A refunding bonds, issued in the amount of \$4,095,000. Principal payments are due annually on May 1, with interest ranging from 4.50 percent to 6.75 percent	\$ 2,915,000	\$ (2,915,000)	\$ -
2004 Series A refunding bonds, issued in the amount of \$2,865,000. Principal payments are due annually on May 1, with interest ranging from 2.0 percent to 3.75 percent	-	2,865,000	2,865,000
1992 Series B refunding bonds, issued in the amount of \$2,370,000. Principal payments are due annually on May 1, with interest ranging from 6.1 percent to 6.75 percent	445,000	(155,000)	290,000
<b>Fiscal Stabilization Bonds</b>			
2002 fiscal stabilization bonds, issued in the amount of \$2,500,000. Principal payments are due annually on November 1, with interest ranging from 2.95 percent to 5.15 percent	2,330,000	(75,000)	2,255,000
<b>Installment Purchase Agreement Contracts</b>			
1999 in the amount of \$318,430. Principal payments are due monthly, with interest at 4.41 percent	69,390	(69,069)	321
Computer hardware and software purchased in August 1999 in the amount of \$130,543. Principal payments are due monthly, with interest at 4.41 percent	24,367	(24,367)	-

### Note 5 - Long-term Debt (Continued)

	July 1, 2003	Additions (Reductions)	June 30, 2004
<b>Other Obligations</b>			
Brownfield Cleanup Revolving Loan, issued in the amount of \$324,400. Principal payments are due annually on March 1 beginning in 2006, with 0 percent interest	\$ -	\$ 324,400	\$ 324,400
Grand Haven/Dyar Section 108 loan, at the authorized amount of \$750,000. Principal payments are due annually August 1, with interest calculated at LIBOR plus two basis points	-	484,019	484,019
Joseph Campau Streetscape Project Section 108 loan, at an authorized amount of \$758,000. Principal payments are due annually August 1, with interest calculated at LIBOR plus two basis points	-	758,000	758,000
<b>Accumulated Benefits, Insurance, and Other</b>			
Lawsuits and asserted claims (see Note 12)	8,250,000	(2,205,000)	6,045,000
Accumulated sick, vacation, and other days	2,118,488	(372,959)	1,745,529
Estimated insurance claims (see Note 6):			
Workers' compensation	646,024	407,845	1,053,869
General liability	125,000	-	125,000
Total General Long-term Debt Account Group	<u>\$ 16,923,269</u>	<u>\$ (977,131)</u>	<u>\$ 15,946,138</u>
<b>Enterprise Fund Debt</b>			
Restructure of past due City of Detroit water and sewer charges in January 2002 into an installment note in the amount of \$3,472,346. Principal payments are due monthly, with no interest due	\$ 1,072,346	\$ (600,000)	\$ 472,346
Water meter equipment and software purchased in February 2002 in the amount of \$1,348,290. Principal payments are due monthly beginning in July 2002, with interest at 5.24 percent	1,184,721	(172,262)	1,012,459
Accumulated sick, vacation, and other days	<u>13,330</u>	<u>-</u>	<u>13,330</u>
Total Enterprise Fund Debt	<u>2,270,397</u>	<u>(772,262)</u>	<u>1,498,135</u>
Total long-term debt	<u>\$ 19,193,666</u>	<u>\$ (1,749,393)</u>	<u>\$ 17,444,273</u>

# City of Hamtramck, Michigan

## Notes to Financial Statements June 30, 2004

### Note 5 - Long-term Debt (Continued)

**Debt Service Requirements** - The annual requirements to service all debt outstanding as of June 30, 2004 (excluding lawsuits and asserted claims, accumulated employee benefits, and estimated insurance claims), including both principal and interest, are as follows:

Years Ending June 30	General Obligations	Enterprise Fund	Total
2005	\$ 3,583,119	\$ 703,355	\$ 4,286,474
2006	3,813,678	231,007	4,044,685
2007	1,320,069	231,006	1,551,075
2008	829,621	231,005	1,060,626
2009	834,371	231,454	1,065,825
Remaining years	4,737,330	-	4,737,330
Total	<u>\$15,118,188</u>	<u>\$ 1,627,827</u>	<u>\$ 16,746,015</u>

**Interest** - Total interest incurred for the City for the year approximated \$499,000.

**Advance and Current Refundings** - During the year, the City issued \$2,865,000 million in general obligation bonds with an average interest rate of 3.5 percent. The proceeds of these bonds were used to advance refund \$2,680,000 million of outstanding bonds with an average interest rate of 6.6 percent. The advance refunding reduced total debt service payments over the next 8 years by approximately \$460,000, which represents an economic gain of approximately \$315,000.

### Note 6 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for general liability, fleet, dishonesty, boiler, and medical benefits claims. The City is uninsured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### Note 6 - Risk Management (Continued)

The City estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. In addition, the City estimates the general liability claims that are in excess of its deductible limits. These estimates are recorded in the General Long-term Debt Account Group. Changes in the estimated liability for the past fiscal year were as follows:

	Workers' Compensation	General Liability
Estimated liability - June 30, 2002	\$ 710,904	\$ 125,000
Estimated claims incurred, including changes in estimates	(14,858)	23,274
Claim payments	<u>(50,022)</u>	<u>(23,274)</u>
Estimated liability - June 30, 2003	646,024	125,000
Estimated claims incurred, including changes in estimates	635,364	9,149
Claim payments	<u>(189,577)</u>	<u>(9,149)</u>
Estimated liability - June 30, 2004	<u>\$ 1,091,811</u>	<u>\$ 125,000</u>

### Note 7 - Budget Information

The annual budget was prepared by the Emergency Financial Manager, including any subsequent amendments. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. For budget purposes, the City began allocating most employee benefits directly to each department for the June 30, 2004 budget year. However, the accounting records continue to charge these expenditures to a single function, in accordance with the State chart of accounts. Therefore, the actual expenditures reported for each department are not aggregated on the same basis as the budget amounts. This significantly affects the ability to compare actual expenditures to budgeted amounts.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exception:

- Operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."

### Note 7 - Budget Information (Continued)

The budget statement (combined statement of revenue and expenditures - budget and actual - General and Special Revenue Fund types) is presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budget statement to the operating statement (combined statement of revenue, expenditures, and changes in fund balances (deficit) - all governmental fund types, expendable trust fund, and component units):

	General Fund		Special Revenue Funds	
	Total		Total	
	Total Revenue	Expenditures	Total Revenue	Expenditures
Amounts per operating statement	\$ 16,434,531	\$ 17,022,377	\$ 2,446,500	\$ 3,280,878
Operating transfers budgeted as				
revenue and expenditures	-	326,560	1,123,602	1,035,686
Funds not budgeted	-	-	(749,308)	(1,602,517)
Proceeds from long-term debt recorded				
as revenue	2,865,000	-	-	-
Payment to refunded bond escrow agent	-	2,823,500	-	-
Amounts per budget statement	<u>\$ 19,299,531</u>	<u>\$ 20,172,437</u>	<u>\$ 2,820,794</u>	<u>\$ 2,714,047</u>

The General Fund budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. In addition, the City did not budget for the following two Special Revenue Funds, Building and Improvement Fund and Property Revitalization Fund. A comparison of actual results of operations to the General Fund budget is included in the additional information. This comparison includes expenditure budget overruns. The Special Revenue Funds' budget has been adopted on a total revenue/total expenditure basis. A comparison of the actual results of operations to the Special Revenue Fund budgets is available at the clerk's office for inspection.

### Note 7 - Budget Information (Continued)

Expenditure budget overruns were as follows:

	Budget	Actual
General Fund:		
District court	\$ 454,488	\$ 498,137
Mayor's office	21,818	74,036
Emergency Financial Manager	180,199	200,036
Elections	35,395	36,817
Clerk	134,271	135,410
Treasurer	129,316	148,220
Highways and streets	601,874	603,468
Sanitation	1,006,000	1,073,248
Housing Code enforcement	118,301	138,055
Equipment rental	-	405
Zoning commission	250	844
Employee benefits	2,244,099	2,376,451
Other	-	112,893
Payment to refunded bond escrow agent	-	(2,823,500)
Special Revenue Funds:		
Local Streets - Public Works	313,750	473,332
911 Emergency	-	49,485
Drug Law Enforcement - Public Safety	109,000	148,769
U.S. Justice Department grants - Health and Welfare	55,000	88,250

The Community Development Block Grant Fund had a fund deficit at June 30, 2004 of \$84,353. The deficit is the result of timing difference between grant-related expenditures and reimbursements from the granting agency. The fund deficit will be eliminated when the grant reimbursements are received in the upcoming fiscal year. In addition, the Downtown Development Authority (a discretely presented component unit) had a deficit at June 30, 2004 of \$433,981. Of this total, \$272,342 relates to deferred grant monies not received within 60 days. The remaining deficit will be eliminated in future years by parking meter revenue.

### **Note 8 - Postemployment Benefits**

The City provides health care, dental, and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 167 retirees are eligible for dental and health care benefits and 82 retirees are eligible for life insurance. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for the postemployment benefits are recognized as the insurance premiums become due; during the year, this amounted to \$877,505.

### **Note 9 - Pension Plan**

**Plan Description** - The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers substantially all full-time employees of the City. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MMERS. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the MMERS for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent.

**Annual Pension Cost** - For the year ended June 30, 2004, the City's annual pension cost of \$3,442,317 for the plan was equal to the City's required and actual contribution. All contributions were paid prior to year end. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.50 percent to 8.66 percent per year, and (c) the assumption that benefits will increase 2.5 percent per year for those retiring before March 1, 1977 and April 1, 1995. Both (a) and (b) include an inflation component of 4.50 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 30 years.



# City of Hamtramck, Michigan

## Notes to Financial Statements June 30, 2004

### Note 9 - Pension Plan (Continued)

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2004	2003	2002
Annual pension cost (APC)	\$ 3,442,317	\$ 3,110,653	\$ 2,727,111
Percentage of APC contributed	100%	100%	100%
Net pension obligation	unknown	unknown	unknown
	Actuarial Valuation as of December 31		
	2003	2002	2001
Actuarial value of assets	\$ 55,789,889	\$ 54,601,050	\$ 55,973,380
Actuarial Accrued Liability (AAL)			
(entry age normal)	<u>85,859,065</u>	<u>82,335,636</u>	<u>82,994,648</u>
Unfunded AAL (UAAL)	<u>\$ 30,069,176</u>	<u>\$ 27,734,586</u>	<u>\$ 27,021,268</u>
Funded ratio	65%	66%	67%
Covered payroll	\$ 6,683,736	\$ 6,324,501	\$ 6,085,620
UAAL as a percentage of covered payroll	450%	439%	444%

**Policemen and Firemen Plan** - Prior to 1994, the City operated a self-administered pension system for its police and fire personnel. During the 1980s and early 1990s, the City did not fully fund this pension system in accordance with actuarially required contributions. In June 1994, the Wayne County Circuit Court (the "Court") ordered the City's pension plan to be transferred to the Michigan Municipal Employees' Retirement System. The Court also ordered the City to fund the total unfunded accrued liability of \$37,886,752 over a 20-year period in annual installments. The City's annual pension contribution includes a provision to fund this unfunded liability. As a result of the underpayments during the 1980s and early 1990s, the City has a net pension obligation. However, this amount has not been calculated by either the actuary or the City.

### Note 10 - The Wyandotte Project (Michigan R-3 I)

A class action lawsuit was brought against the City by minority residents who lived in the R-3I Urban Renewal Area (Wyandotte Project) who allege discrimination in the City's Urban Development Program.

### **Note 10 - The Wyandotte Project (Michigan R-3 I) (Continued)**

The Court determined that there was merit to the complaint, and the decision ordered the City to set up a Tax Increment Financing Authority (TIFA) district in the R-3 I area. All revenue collected in this area, including property taxes, income tax, permit, interest, and property sales, must be placed in a separate fund and used for the construction of housing for the families displaced by the development project.

The City is currently in the process of satisfying the judgment and spent approximately \$1,970,000 as of June 30, 2004. The Development Agreement Escrow Fund was created to accumulate the earmarked revenue and has a reserved fund balance of \$3,909,536 at June 30, 2004.

In addition to the above funds set aside for the project, the Court has also required the following commitments relating to the project:

- Provide up to \$750,000 of Section 108 Community Development Block Grant loan proceeds to be used for implementation of the project. The City has spent approximately \$650,000 as of June 30, 2004. Act 51 funds will be used to repay this loan.
- Provide up to \$500,000 of Wayne County Brownfield Redevelopment Authority Loan Fund proceeds to be used for the remediation of environmental problems. The City has spent approximately \$426,000 of these proceeds.
- Provide up to \$650,000 of Brownfield Economic Development Initiative Program Loan proceeds to be used for the completion of the project. The City has spent approximately \$31,000 as of June 30, 2004.
- Provide CDBG funds for the fiscal years 2004 and thereafter to be used for the completion of all infrastructure and site preparation that are permissible uses of CDBG funds. The City has spent approximately \$95,000 as of June 30, 2004.

The City is uncertain if the funds collected to date and the additional commitments noted above will be sufficient to cover the entire cost of the project.

### **Note 11 - Central Industrial Park Project (CIPP) Interlocal Agreement**

The CIPP Interlocal Agreement is an agreement between the City, Wayne County, and the City of Detroit regarding the distribution of property tax and income tax revenues generated from the GM Poletown property. Under the agreement, the City is guaranteed to receive 50 percent of the first \$3.4 million collected and the City of Detroit will receive the other 50 percent. Any amounts collected over \$3.4 million will be distributed to each city based on the allocation of the qualifying project costs. If excess collections are received after project costs are paid, the balance will be distributed 1/3 to Hamtramck and 2/3 to Detroit. Collections for the year ended June 30, 2004 totaled approximately \$1,418,000.

### **Note 12 - Lawsuit Settlement**

The Court has issued a judgment against the City concerning the calculation of pension benefits owed to employees. The amount of damages equals \$8.25 million including interest. The balance as of June 30, 2004 is \$6.05 million. The judgment allows the City to place the above award on the tax rolls. The total mills required to satisfy the judgment are approximately 49. Approximately 7 mills will be levied on each billing (summer and winter) over the next three and half years. The City has recorded a liability for this loss in the General Long-term Debt Account Group.

### **Note 13 - Environmental Commitment**

In a prior year, the City and additional defendants entered into a consent judgment with the State of Michigan and Michigan Department of Environmental Quality (MDEQ) to clean up a piece of property. The agreement called for the property to be cleaned-up and an amount to be placed in a trust for future operating and maintenance costs. The City completed the cleanup during 2003 and placed approximately \$442,000 in a trust for future operating and maintenance costs related to the property. The balance in the trust at June 30, 2004, totaled approximately \$380,000.

### Note 14 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall - July 1, 2003	\$(193,321)
Current year building permit revenue	151,330
Related expenses:	
Direct costs	139,055
Estimated indirect costs	<u>55,622</u>
Total construction code expenses	<u>194,677</u>
Cumulative shortfall - June 30, 2004	<u>\$(236,668)</u>

### Note 15 - Contributed Capital

During 2004, the Downtown Development Authority received a grant for construction of water and sewer lines. These lines were contributed to the City's Enterprise Fund by the Authority. The Enterprise Fund's sole source of contributed capital is the current year contribution from the Authority that totaled \$705,556 at June 30, 2004.

### Note 16 - Commitment Liability

A contract totaling \$2,529,000 was awarded for R-31 infrastructure improvements. The remaining balance as of June 30, 2004 is \$1,997,000.

## **Additional Information**

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To the Emergency Financial Manager,  
Honorable Mayor, and City Council  
City of Hamtramck, Michigan

We have audited the general purpose financial statements of the City of Hamtramck, Michigan for the year ended June 30, 2004. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the City of Hamtramck, Michigan. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*Plante & Moran, PLLC*

December 17, 2004

## **General Fund**

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The General Fund contains the records of the ordinary activities of the City that are not accounted for in another fund. General Fund activities are funded by revenues from state-shared revenues, general property taxes, fees, and other sources. The schedules comparing revenue and expenditures - budget to actual compare the activity budgets (the level in which expenditures may not legally exceed appropriations) to actual revenues and expenditures.

# City of Hamtramck, Michigan

## General Fund - Schedule of Revenue, Expenditures, and Changes in Fund Balance by Activity Budget and Actual Year Ended June 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>			
Property taxes:			
Property taxes	\$ 4,134,217	\$ 4,044,371	\$ (89,846)
GM revenue	982,184	988,699	6,515
Payments in lieu of taxes	1,333,124	1,379,344	46,220
Total property taxes	6,449,525	6,412,414	(37,111)
Income taxes	2,628,485	2,661,521	33,036
Licenses and permits:			
Business	124,930	148,715	23,785
Nonbusiness	140,810	151,330	10,520
Total licenses and permits	265,740	300,045	34,305
Federal sources	14,674	-	(14,674)
State sources	4,333,372	4,424,744	91,372
Charges for services	1,331,588	1,104,639	(226,949)
Parking meters and permits	-	670	670
Fines and forfeitures	1,015,000	997,075	(17,925)
Interest	17,421	19,450	2,029
Other	371,280	513,973	142,693
Total revenue	16,427,085	16,434,531	7,446



# City of Hamtramck, Michigan

## General Fund - Schedule of Revenue, Expenditures, and Changes in Fund Balance by Activity Budget and Actual (Continued) Year Ended June 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Expenditures</b>			
General government:			
Legislative	\$ 63,339	\$ 15,299	\$ 48,040
District Court	454,488	498,137	(43,649)
Mayor's office	21,818	74,036	(52,218)
Emergency Financial Manager	180,199	200,036	(19,837)
Elections	35,395	36,817	(1,422)
Assessor	88,303	103,521	(15,218)
Legal	434,279	380,216	54,063
Clerk	134,271	135,410	(1,139)
Controller	385,814	345,057	40,757
Treasurer	129,316	148,220	(18,904)
Building and grounds	643,269	473,340	169,929
Income tax	229,842	220,643	9,199
Civil service	350,538	384,466	(33,928)
Chore	6,762	3,187	3,575
Community/Economic development	66,508	47,966	18,542
Total general government	3,224,141	3,066,351	157,790
Public safety:			
Police	5,421,760	5,217,965	203,795
Fire	3,956,662	3,816,491	140,171
Auto theft grant	157,333	118,311	39,022
Total public safety	9,535,755	9,152,767	382,988
Public works:			
Building and engineering	1,000	1,000	-
Housing rental inspection	133,570	116,422	17,148
DPW Administration	71,721	40,825	30,896
Highways and streets	601,874	603,468	(1,594)
Sanitation	1,006,000	1,073,248	(67,248)
Total public works	1,814,165	1,834,963	(20,798)

# City of Hamtramck, Michigan

## General Fund - Schedule of Revenue, Expenditures, and Changes in Fund Balance by Activity Budget and Actual (Continued) Year Ended June 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Expenditures (Continued):</b>			
Health and welfare:			
Housing Code enforcement	\$ 118,301	\$ 138,055	\$ (19,754)
Equipment rental	-	405	(405)
Zoning Commission	250	844	(594)
Total health and welfare	118,551	139,304	(20,753)
Employee benefits and other:			
Employee benefits	2,244,099	2,376,451	(132,352)
Other	-	112,893	(112,893)
Total employee benefits and other	2,244,099	2,489,344	(245,245)
Debt service	522,793	339,648	183,145
Total expenditures	17,459,504	17,022,377	437,127
<b>Other Financing Sources (Uses)</b>			
Net proceeds from the issuance of long-term debt	-	2,865,000	2,865,000
Payment on refunding bonds	-	(2,823,500)	(2,823,500)
Operating transfers out	-	(326,560)	(326,560)
Total other financing sources (uses)	-	(285,060)	(285,060)
<b>Change in Fund Balance</b>	<b>\$ (1,032,419)</b>	<b>(872,906)</b>	<b>\$ 159,513</b>
<b>Fund Balance - Beginning of year</b>		<b>1,034,829</b>	
<b>Fund Balance - End of year</b>		<b>\$ 161,923</b>	

# Special Revenue Funds

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Special Revenue Funds account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The City of Hamtramck has 10 Special Revenue Funds that are accounted for separately. A description of the Special Revenue Funds maintained by the City is as follows:

## **Major Streets Fund**

This fund records the construction, maintenance, and repairs of all major streets. Revenues received include state-shared gas and weight taxes, local contributions, and bonding. This fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951, as amended.

## **Local Streets Fund**

This fund records the construction, maintenance, and repairs of all local streets. Financing is provided by state-shared gas and weight taxes, local contributions, bonding, etc. This fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951, as amended.

## **Library Fund**

This fund records the operating activities of the City's public library. Activities are funded by revenues from property taxes, state aid, and other fines and fees. Expenditures consist primarily of wages.

## **U.S. Justice Department Grants Fund**

This fund records amounts received from the U.S. Department of Justice for the COPS More Award and Local Law Enforcement Block Grants. Funds are expended on such programs as hiring additional law enforcement officers and other crime prevention tools.

## **Community Development Block Grant Fund**

This fund records pass-through funding received from the U.S. Department of Housing and Urban Development (HUD) for Community Development Block Grants (CDBG). Funds are expended on such programs as housing rehabilitation, social services agencies, and restorations of historical sites.

## **911 Emergency Fund**

An Emergency 911 utility surcharge is imposed on all telephone customers in Wayne County. Money collected is distributed to local communities. Expenditure of these funds is restricted to qualifying expenses as defined by the State of Michigan. This fund was created to account for the receipt and expenditure of these Emergency 911 Utility Tax funds.

# **Special Revenue Funds (Continued)**

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## **Drug Law Enforcement Fund**

This fund records monies received from the Federal Drug Enforcement Agency for law enforcement purposes and for state funds related to drug enforcement purposes. These monies are to be used to supplement existing drug enforcement funds in the law enforcement field.

## **Miscellaneous State Grants Fund**

This fund records pass-through funding received from the State of Michigan Department of Justice Training Fund. Funds are expended on training programs for law enforcement officers.

## **Building and Improvement Fund**

This fund records the collection of fees levied on civil infractions and misdemeanors tickets. The purpose of the levy is to provide funds for renovation, expanding, and/or erecting and building new facilities.

## **Property Revitalization Fund**

This fund records the proceeds from the Brownfield Revitalization loan. The proceeds from this loan are to be used for property cleanup.

# City of Hamtramck, Michigan

	Major Streets	Local Streets	Library	U.S. Justice Department Grants	Community Development Block Grant
<b>Assets</b>					
Cash and investments	\$ 1,033,660	\$ 60,795	\$ 231,146	\$ (862)	\$ 14,848
Receivables:					
Taxes	-	-	36,210	-	-
Other	-	-	-	-	104,757
Due from other governmental units	158,161	48,378	-	8,485	-
Due from other funds	41,178	261,183	31,872	6,003	79,782
Total assets	<u>\$ 1,232,999</u>	<u>\$ 370,356</u>	<u>\$ 299,228</u>	<u>\$ 13,626</u>	<u>\$ 199,387</u>
<b>Liabilities and Fund Balances (Deficit)</b>					
<b>Liabilities</b>					
Accounts payable	\$ 5,577	\$ -	\$ 7,069	\$ 1	\$ 6,500
Due to other funds	254,125	-	57,101	-	168,050
Accrued liabilities	-	-	7,240	-	-
Deferred revenue	-	-	-	8,780	109,190
Total liabilities	259,702	-	71,410	8,781	283,740
<b>Fund Balances (Deficit) - Unreserved</b>	<u>973,297</u>	<u>370,356</u>	<u>227,816</u>	<u>4,845</u>	<u>(84,353)</u>
Total liabilities and fund balances (deficit)	<u>\$ 1,232,999</u>	<u>\$ 370,356</u>	<u>\$ 299,226</u>	<u>\$ 13,626</u>	<u>\$ 199,387</u>

**Special Revenue Funds  
Combining Balance Sheet  
June 30, 2004**

911 Emergency	Drug Law Enforcement	Miscellaneous State Grants	Building and Improvement	Property Revitalization	Total
\$ 80,070	\$ 113,021	\$ 42,190	\$ 94,087	\$ 379,944	\$ 2,048,899
-	-	-	-	-	36,210
-	-	-	-	-	104,757
-	-	-	-	-	215,024
-	60,431	-	23,396	-	503,845
<u>\$ 80,070</u>	<u>\$ 173,452</u>	<u>\$ 42,190</u>	<u>\$ 117,483</u>	<u>\$ 379,944</u>	<u>\$ 2,908,735</u>
\$ 331	\$ 2,327	\$ 500	\$ 22,585	\$ -	\$ 44,890
456	-	2,940	-	45,394	528,066
-	-	-	-	-	7,240
-	-	-	-	-	117,970
787	2,327	3,440	22,585	45,394	698,166
79,283	171,125	38,750	94,898	334,550	2,210,567
<u>\$ 80,070</u>	<u>\$ 173,452</u>	<u>\$ 42,190</u>	<u>\$ 117,483</u>	<u>\$ 379,944</u>	<u>\$ 2,908,733</u>

# City of Hamtramck, Michigan

	Major Streets	Local Streets	Library	U.S. Justice Department Grants	Community Development Block Grant
<b>Revenue</b>					
Property taxes	\$ -	\$ -	\$ 366,501	\$ -	\$ -
Federal grants	-	-	-	57,047	139,213
State grants and distributions	1,068,536	284,659	-	-	-
Fines and forfeitures	-	-	-	-	-
Charges for services	-	-	-	-	-
Interest	7,592	-	-	-	-
Proceeds from issuance of long-term debt	-	-	-	-	2,745
Other	-	-	52,673	-	-
Total revenue	1,076,128	284,659	419,174	57,047	141,958
<b>Expenditures</b>					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	579,728	473,332	-	-	-
Health and welfare	-	-	-	88,250	72,119
Recreation and cultural	-	-	254,213	-	-
Economic development	-	-	-	-	-
Total expenditures	579,728	473,332	254,213	88,250	72,119
<b>Excess of Revenue Over (Under)</b>					
Expenditures	496,400	(188,673)	164,961	(31,203)	69,839
<b>Other Financing Sources (Uses)</b>					
Operating transfers in	-	391,036	-	31,203	-
Operating transfer out	(254,125)	-	-	-	(52,754)
Total other financing sources (uses)	(254,125)	391,036	-	31,203	(52,754)
<b>Changes in Fund Balance</b>	242,275	202,363	164,961	-	17,085
<b>Fund Balances (Deficit) - July 1, 2003</b>	731,022	167,993	62,857	4,845	(101,438)
<b>Fund Balances (Deficit) - June 30, 2004</b>	<u>\$ 973,297</u>	<u>\$ 370,356</u>	<u>\$ 227,818</u>	<u>\$ 4,845</u>	<u>\$ (84,353)</u>

**Special Revenue Funds**  
**Combining Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances (Deficit)**  
**Year Ended June 30, 2004**

911 Emergency	Drug Law Enforcement	Miscellaneous State Grants	Building and Improvement	Property Revitalization	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 366,501
-	302,783	-	-	-	499,043
-	100,786	-	-	-	1,453,981
-	-	-	44,483	-	44,483
273	-	-	-	-	273
768	4,836	74	-	717	13,987
-	-	-	-	-	2,745
-	-	15,559	-	-	68,232
1,041	408,405	15,633	44,483	717	2,449,245
-	-	-	1,539,019	-	1,539,019
49,485	148,769	-	-	-	198,254
-	-	-	-	-	1,053,060
-	-	12,465	-	-	172,834
-	-	-	-	-	254,213
-	-	-	-	63,498	63,498
49,485	148,769	12,465	1,539,019	63,498	3,280,878
(48,444)	259,636	3,168	(1,494,536)	(62,781)	(831,633)
-	-	-	700,000	4,108	1,126,347
-	(728,807)	-	-	-	(1,035,686)
-	(728,807)	-	700,000	4,108	90,661
(48,444)	(469,171)	3,168	(794,536)	(58,673)	(740,972)
127,727	640,296	35,582	889,434	393,223	2,951,541
<u>\$ 79,283</u>	<u>\$ 171,125</u>	<u>\$ 38,750</u>	<u>\$ 94,898</u>	<u>\$ 334,550</u>	<u>\$ 2,210,569</u>



## **Debt Service Funds**

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The Debt Service Funds are used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt other than debt payable from the operations of an Enterprise Fund. The City of Hamtramck has two Debt Service Funds that are accounted for separately. A description of the Debt Service Funds maintained by the City is as follows:

### **Court Judgment #2 Fund**

This fund records the proceeds of a court ordered judgment levy and debt service payments for the 1992 Series B Refunding bonds.

### **Pension Judgment Fund**

This fund records the proceeds of a court order judgment levy and to pay a past pension obligation. Distributions from this fund are made to a trustee who distributes the money to the individual pensioners.

# City of Hamtramck, Michigan

## Debt Service Funds Combining Balance Sheet June 30, 2004

	<u>Court Judgment #2</u>	<u>Pension Judgment</u>	<u>Total</u>
<b>Assets</b>			
Cash and investments	\$ 174,861	\$ -	\$ 174,861
Receivables:			
Taxes	12,399	271,424	283,823
Due from other funds	<u>60,896</u>	<u>57,010</u>	<u>117,906</u>
 Total assets	 <u><b>\$ 248,156</b></u>	 <u><b>\$ 328,434</b></u>	 <u><b>\$ 576,590</b></u>
 <b>Fund Balances - Unreserved</b>	 <u><b>\$ 248,156</b></u>	 <u><b>\$ 328,434</b></u>	 <u><b>\$ 576,590</b></u>

# City of Hamtramck, Michigan

## Debt Service Funds Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2004

	Court Judgment #2	Pension Judgment	Total
<b>Revenue</b>			
Property taxes	\$ 144,604	\$ 2,729,809	\$ 2,874,413
Interest	<u>1,461</u>	<u>-</u>	<u>1,461</u>
Total revenue	146,065	2,729,809	2,875,874
<b>Expenditures</b>			
Debt payments	-	183,145	183,145
Debt service	<u>183,837</u>	<u>2,401,375</u>	<u>2,585,212</u>
Total expenditures	<u>183,837</u>	<u>2,584,520</u>	<u>2,768,357</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	(37,772)	145,289	107,517
<b>Other Financing Sources - Operating transfers in</b>	<u>-</u>	<u>183,145</u>	<u>183,145</u>
<b>Changes in Fund Balances</b>	(37,772)	328,434	290,662
<b>Fund Balances - July 1, 2003</b>	<u>285,928</u>	<u>-</u>	<u>285,928</u>
<b>Fund Balances - June 30, 2004</b>	<u><u>\$ 248,156</u></u>	<u><u>\$ 328,434</u></u>	<u><u>\$ 576,590</u></u>

# **Trust and Agency Funds**

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Trust Funds account for assets held by the City in a trustee capacity. Agency Funds account for assets held by the City as an agent for individuals, private organizations, other governments, and/or other funds. A description of the Trust and Agency Funds maintained by the City is as follows:

## **Expendable Trust - Development Agreement Escrow Fund**

This fund records money held in trust resulting from a 1981 court judgment. The judgment required the City to create a Tax Increment Finance Authority (TIFA) District (R-31). All revenues including property taxes, income taxes, and sale and building permit proceeds must be held in this fund and used for the replacement and rehabilitation of homes in this district. The judgment called for the creation of two corporations to supervise the development in this district.

## **Tax Collection Agency Fund**

This fund records the current tax collections that are held by the City in the capacity of trustee. The collections are then transferred to the City funds and to other governmental units on a timely distribution basis. The fund also receives and distributes proceeds from delinquent personal property tax collections.

## **General Agency Fund**

The fund is used to record Public Act 495 escrow receipts and subsequent disbursements.

# City of Hamtramck, Michigan

## Trust and Agency Funds Combining Balance Sheet June 30, 2004

	Expendable Trust - Development Agreement Escrow	Agency		
		Tax Collection	General	Total
<b>Assets</b>				
Cash and investments	\$ 4,103,242	\$ 584,817	\$ 79,672	\$ 4,767,731
Accounts receivable	540,753	-	-	540,753
Due from other funds	109,530	3,993	6,183	119,706
Total assets	<u><b>\$ 4,753,525</b></u>	<u><b>\$ 588,810</b></u>	<u><b>\$ 85,855</b></u>	<u><b>\$ 5,428,190</b></u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 784,594	\$ -	\$ -	\$ 784,594
Due to other governmental units	-	455,374	-	455,374
Due to other funds	6,183	133,436	14,779	154,398
Accrued and other liabilities	-	-	71,076	71,076
Deferred revenue	53,212	-	-	53,212
Total liabilities	843,989	588,810	85,855	1,518,654
<b>Fund Balances - Reserved for</b>				
development agreement escrow	<u>3,909,536</u>	<u>-</u>	<u>-</u>	<u>3,909,536</u>
Total liabilities and fund balances	<u><b>\$ 4,753,525</b></u>	<u><b>\$ 588,810</b></u>	<u><b>\$ 85,855</b></u>	<u><b>\$ 5,428,190</b></u>

December 17, 2004

To the Emergency Financial Manager,  
Honorable Mayor and City Council  
City of Hamtramck  
3401 Evaline  
Hamtramck, MI 48212

Dear Mr. Schimmel, Mayor and Council Members:

We have recently completed our audit of the City of Hamtramck for the year ended June 30, 2004. As a part of our audit, we offer the following comments and recommendations for improvements in your financial systems.

### **Recommendations**

#### **Internal Control Considerations**

During the year's audit, we were required to adopt Statement of Auditing Standards Number 99 (referred to as SAS 99) entitled Consideration of Fraud in a Financial Statement. SAS 99 requires new procedures regarding the auditor's consideration of the possibility of fraud in a financial statement audit. This resulted in new and additional testing in the conduct of this year's audit.

During the past few years, the City has shown an ability to prepare accurate annual financial reports. We believe you should continue to focus your efforts on improving the reliability of the interim (quarterly or monthly) reporting. In order to accomplish this, several improvements would need to be made:

1. **Accounts payable:** The accounts payable system should be used throughout the year to enter every invoice as it comes in. In addition, the accounts payable balance on the general ledger should be reconciled periodically to the detailed subsidiary ledger. This will improve the reliability of the budget to actual comparisons run throughout the year.
2. **Water and sewer customer receivables:** Water and Sewer customer receivables should be reconciled from the subsidiary ledger detail to the general ledger on a periodic basis, preferably monthly or quarterly. At June 30, 2004, we noted a material difference between the actual billing registers and the general ledger. Timely reconciliation of the billing registers will allow the City to promptly identify any differences if they exist. By identifying differences on a timely basis, they can be isolated and resolved much more effectively.
3. **Disaster recovery plan:** Currently, computer back ups are done on tapes daily and stored in a computer room. A system back up is done monthly. All back up files are kept in the computer room with no copies kept off-site. We recommend a more comprehensive disaster plan be developed in order to protect files and not lose data.

### **Internal Control Considerations (Continued)**

4. **Deposits:** Detailed records of performance deposits and Act 495 fire escrow deposits are not maintained and reconciled to the general ledger. We recommend the City assign this responsibility to an individual and reconcile all activity to the general ledger on a timely basis.

### **Budgetary Controls**

The expenditure accounts used in the general ledger have been organized on a different basis than that used in adopting the budget. This affects the ability to compare actual expenditures to budgeted amounts. We recommend that the organization of the general ledger accounts or the budget (or both) be changed so that they are consistent with each other. Once this is accomplished, it is then important to enter the adopted budget into the general ledger software, so as to facilitate the comparison of actual expenditures to budgeted amounts.

In addition, there was no budget completed for the Building and Improvement as well as Property Revitalization special revenue funds. The State's Budget Act requires that all Special Revenue Funds be included in the budget.

### **Cash Receipts Recommendations**

During our testing, we noted the following:

- The City should identify one person who opens all mail and restrictively endorses any cash receipts. In addition, this person should initiate the cash receipt process by entering the receipt into the cash register. Also, we noted deposits were not always made on a timely basis.
- Additionally, it appears that the same individuals who collect the cash in the Treasurer's office also balance the cash at the end of the day. Developing a system that provides for separate individuals for cash receipting and balancing of cash drawer would improve the segregation of duties.
- We noted the electronic parking lot meters produce a report of money received. Currently the report is not being maintained or reconciled to the deposits on the bank statement. The City should review these reports to see if they can be used to reconcile to deposits at the bank and improve safeguards on the cash collections.

### **Cash Disbursements Procedures**

As part of our audit, we continue to note the need for improvements in cash disbursement procedures:

- All invoices should be cancelled after they are paid, or some other method found to automate the prohibition of double payment. We discovered a few instances in which invoices were not stamped paid and duplicate payments were made. The duplicate payments were discovered prior to the audit and the payments were recovered.

### **Cash Disbursements Procedures (Continued)**

- The accounts payable listing has many old invoices that have actually been paid through payment agreements (primarily refuse and sewer bills). The City should investigate all invoices over a year old to determine if they have actually been paid or cancelled and remove them from the subsidiary ledger.

### **Segregation of Duties**

Given the City's financial condition and reduced staffing levels, strong segregation of duties has been difficult to achieve. As the financial conditions improve and staffing levels increase, effort should be made to segregate the duties of the authorization, custody, and recording of items related to the cash disbursements, cash receipts, payroll and bank reconciliation process.

### **Fixed Asset Records**

The City opted not to comply with the new governmental reporting requirements (GASB 34) primarily due to inadequate fixed asset records and the substantial costs associated with implementation. The City intends to implement the new reporting requirements when the financial position of the City improves. We believe you should begin to create records of fixed asset purchases and disposals, in order to facilitate the eventual conversion to the GASB 34 reporting model.

### **Special Assessments**

The City began assessing property owners for sidewalk paving during the current year. The initial balance recorded in the general ledger did not agree with the subsidiary ledger and the balance at year end did not agree to the subsidiary ledger. We recommend the subsidiary ledger be reconciled to the general ledger on a periodic basis. In addition, the City should transfer delinquent amounts to the tax rolls. Overall, the City should establish a formal system for monitoring all special assessment activities.

### **Control Over Grant Spending**

The City continues to not have an effective system of grant accounting. Given the amount of oversight from the various federal agencies, it is often necessary to quickly ascertain how much has been spent or received on a given grant. As a result, several of the individuals who coordinate the various grants maintain separate systems to keep track of grant activity. When this happens, the general ledger needs to be reconciled periodically (e.g., quarterly) to these systems. We noticed instances of mispostings of grant activity that could have been discovered if a quarterly reconciliation were performed. We recommend that an individual be given responsibility to maintain records of amounts received and spent on each grant, and to reconcile this quarterly to the general ledger.



December 17, 2004

### Legal Compliance Items

We recommend that the following items be considered, to ensure compliance with Michigan laws:

- **ACH arrangements:** Recently Public Act 738 was passed, which allows local units of government to make and accept electronic fund transfers (ACH payments), if the local unit adopts a formal policy. While local units of government may have already been using the ACH system for payroll tax remittances and for the deposit of payroll, this new law requires a policy be adopted. The City should adopt a procedure for the authorization and documentation of wire transfers. Non payroll wire transfers should also be reviewed by someone above the person primarily responsible for these transactions.
- **Debt levy:** When setting the amount of property tax millage to levy for the Court Judgment #2 Debt Service Fund, the City should take into consideration the accumulation of fund balance from prior years' levies. State law prohibits levying more than is necessary for the subsequent year's debt service, including any fund balance carried forward from prior year.
- **Property tax distributions to county and schools:** The City should be remitting property taxes to all other taxing entities within ten business days of the 1<sup>st</sup> and 15<sup>th</sup> of each month. This should include timely remittance of IFT monies.

We appreciate the opportunity to serve as the City's auditors and welcome the opportunity to assist with the implementation or discussion of the items mentioned above.

Yours truly,

**Plante & Moran, PLLC**



Leslie J. Pulver



Carl A. Johnson, Jr.